DAWSON COMMUNITY COLLEGE

Financial and Compliance Audit Report

For The Year Ended June 30, 2010

Prepared Under Contract With:
MONTANA LEGISLATIVE BRANCH, AUDIT DIVISION
PO Box 201705, Helena, MT 59620-1705

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor

Deputy Legislative Auditors:
Cindy Jorgenson
Angie Grove

March 2011

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of Dawson Community College for the fiscal year ended June 30, 2010.

The audit was conducted by Joseph Eve, Certified Public Accountants, under a contract between the firm and our office. The comments and recommendations contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The agency's written response to the report recommendations is included in the back of the audit report.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

10C-06

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DAWSON COMMUNITY COLLEGE

Organization

For the Years Ended June 30, 2010

BOARD OF TRUSTEES

COLLEGE OFFICIALS

Dr. James Cargill	President
Justin Cross	Dean of Administrative Services

JOSEPH EVE
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Dawson Community College
Dawson County
Glendive, Montana

We have audited the accompanying financial statements of Dawson Community College, as of and for the year ended June 30, 2010, as listed in the accompanying table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The financial statements do not include the financial data for the College's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for the component unit to be reported with the financial data of the College's primary government unless the College also issues financial statements for the reporting entity that include the financial data for its component unit. The College has not issued such reporting entity financial statements. The effect of this departure from accounting principles generally accepted in the United States of America can not be determined.

In our opinion, because of the omission of the discretely presented component unit, as discussed above, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the discretely presented component unit of Dawson Community College as of June 30, 2010 or the changes in financial position or cash flows thereof for the year then ended.

In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of Dawson Community College as of June 30, 2010, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 30, 2011 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's financial statements as a whole. The Student Financial Aid Modified Statement of Cash Receipts and Disbursements, Schedule of Expenditures - Student Financial Assistance Programs, Schedule of Full Time Equivalent and Functional Classification of Operating Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedules of Expenditures of Federal Awards are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-profit Organizations, and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

JOSEPH EVE
Certified Public Accountants

Billings, Montana
March 30, 2011

DAWSON COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDING JUNE 30, 2010

Dawson Community College (College) is a comprehensive, open access, publicly supported institution of higher education dedicated to serving the needs of those who seek enrichment through educational opportunities. The College exists to address individual needs, interests, and abilities while enhancing the economic, social and cultural attributes of the diverse communities it serves. The College accomplishes this purpose by providing high quality, affordable, flexible programs and services which are academically and geographically accessible. This purpose requires a strong commitment to the teaching and learning process by a service driven philosophy in a supportive environment.

Financial and Other College Highlights

Outreach and Distance Education:

The College continues to operate an Outreach program at the Watch East to all 42 residents. Watch East is a six month alcohol treatment center. The first graduation occurred in early 2008. In 2010 the College maintained 20 courses and credits being offered in the Outreach program. The success rate for participants in this program continues to be in the high ninety percentile.

The CCC-Online network is the most successful distance delivery system offered at the College. CCC-Online enrollment doubled during the 2009 academic year with over 100 students enrolled in online courses. In the current year enrollment was at 181 students taking 970 credits. The partnership with Ed2Go to provide short term online classes for college credit has realized strong growth. In 2008 the College developed and initiated the Sidney Outreach site providing computer courses at the Sidney Public Library. The success of this program has lead to planned expansion of offerings at the Sidney site. These courses are presented in the traditional methodology.

The College developed and initiated the Prison Outreach Program. Working in concert with the Dawson County Correctional Facility courses were designed and implemented to provide qualifying inmates the opportunity to enroll in college courses and programs. The College enjoys the enviable position of being the only institution that has inmates successfully completing the program.

The College continued to develop and improve the Senior Academy. This program is geared for those individuals who are 50 years old and older. One of the fastest growing segments of the population in Eastern Montana is the plus 50 segment. It is the College's belief that demand for outreach and distance education will continue to grow especially in the plus 50 segment. The College will continue to expend resources on developing this delivery methodology.

Program Development:

In the winter of 2006, the Board of Trustees approved the Engineering Technology program and the Music Technology program. The programs were introduced during the 2007 fiscal year. These programs continue to meet enrollment projections and are being marketed to further strengthen their positions at the College.

The College is working with area energy production companies, MSU-Billings, UM-Missoula and area vocational and community colleges to redesign several existing high demand programs to better meet the needs of the energy driven economy. Welding and Engineering Technology programs have realized strong growth and expansion plans are being considered. The expansion plan for Welding Technology includes adding a two-year degree option beginning in the fall of 2010.

Grants:

The College working in partnership with Billings College of Technology has been awarded a four year, with a one year extension, Workforce Innovation in Regional Economic Development (WIRED) grant to spur the evolution of Montana's workforce through the creation of innovation in bio-product technology. 2010 marks the fourth and final year of the Clean Energy for Tomorrow grant. The College continues to develop training and education opportunities that will provide workers with the skills and abilities needed in the renewal energy industry.

The College working in partnership with Billings College of Technology has been awarded a four year, with a one year extension, Community-Based Job Training Grant to build Montana's energy workforce. 2010 marks the fourth and final year of the Energy for Tomorrow grant. The College is creating educational training and opportunities that will focus on the development of workers in high demand employment in the energy industry.

Enrollment (FTE):

During the 2010 fiscal year, total annualized enrollment at the College was 442 FTE compared to total enrollment for the 2009 fiscal year of 451 FTE. Enrollment for the 2010 fiscal year was flat when compared to the level enrollment for the 2009 fiscal year. Enrollment projections for the 2011 fiscal year are level. The projected trend is an indication that the additional resources allocated to new programs, recruitment, marketing and advertising are assisting institutional efforts of maintaining enrollment levels in challenging economic times.

Capital Asset and Long-Term Debt:

During the 2010 fiscal year the College, through funding by OCHE, purchased the SunGard Banner integrated records keeping software system. In addition to the aforementioned capital asset acquisition the College purchased a small bus, installed two energy efficient water heaters in the dormitories and replaced the hall way carpets in the main building.

The College did not incur any additional debt. Other than making the agreed upon payments to debt service, no existing debts were retired in the 2010 fiscal year.

Reading the Annual Financial Report

Accounting Standards

The following Management's Discussion and Analysis is required supplemental information under the Governmental Accounting Standards Board (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an objective, easily read analysis of the College's financial activities based on currently known facts, decisions, and conditions. This discussion includes an analysis of the College's financial condition and result of operations for the fiscal year ending June 30, 2010. Comparative numbers, where presented, are for the fiscal years ending June 30, 2009 and 2010. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying financial statements, notes to financial statements, and other supplementary information. College management is responsible for all of the financial information presented, including this discussion and analysis.

In June 1999, GASB issued Statement 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, which established new financial reporting requirements. In November 1999, GASB issued Statement 35, Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities—an Amendment of GASB Statement 34, which applied the new reporting standards to public institutions. These new reporting standards are effective for fiscal year 2003 and as such comparative data will include fiscal years 2009 and 2010.

These financial reporting standards significantly changed the appearance and nature of the required financial information compared to prior standards. The major changes were: (1) financial statement are presented on an entity-wide basis and not by major fund groups; (2) depreciation expense is recognized, whereas previously it was not; (3) expenses rather than expenditures are reported; and (4) the basic financial statements are preceded by this Management's Discussion and Analysis.

As required by these accounting pronouncements, the basic financial statements are the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net

Assets; and the Statement of Cash Flows. The following analysis discusses elements from each of these statements, as well as an overview of the College's activities.

How the Financial Statements Relate to Each Other

The basic financial statements referred to above are presented using the accrual basis of accounting. The accrual basis of accounting is a method of accounting which attempts to match revenues with expenses by recognizing revenue when a service is rendered and expense when the liability is incurred irrespective of the receipt or disbursement of cash. For example, revenue would be recognized when a student registers for a class not when the student ultimately pays for that class. Amounts that remain unpaid are recorded in accounts receivable. When final payment is received the balance in accounts receivable associated with the individual student will be zero.

The basic financial statements referred to above are interrelated and should be viewed in their entirety. However, each of the financial statements is unique and presents the financial information according to the purpose of the individual statement. The fundamental relationships between the statements are described below. The Statement of Net Assets presents a snap shot of the financial condition of the College on June 30. The Statement of Revenues, Expenses, and Changes in Net Assets present the results of activities for the College throughout the fiscal year. The Statement of Cash Flows summarizes activities that generate and consume cash (illustrating net cash inflow and outflow activities) during the fiscal year.

Statement of Net Assets

The Statement of Net Assets presents the College's assets, liabilities, and net assets as of the fiscal year end. The purpose of this statement is to present to the financial statement readers a snapshot of the College's financial position at June 30, 2010. The data presented in the Statement of Net Assets aids in determining the assets available to continue the College's operations. It also allows readers to determine how much the College owes to vendors and creditors. Finally, the Statement of Net Assets provides a picture of net assets and their availability for expenditure by the College. Sustained increases in net assets are one indicator of an organization's financial health.

Net assets are divided into three major categories. The first "Invested in Capital Assets, Net of Related Debt," represents the College's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. Debt incurred, but not yet expended for capital assets, is not included as a component of Invested in Capital Assets, Net of Related Debt.. The second category is "Restricted Net Assets," which is divided into two categories, Expendable and Nonexpendable. Expendable restricted assets include resources the College is legally or contractually obligated to expend in accordance with restrictions imposed by external third parties. Nonexpendable Restricted Net Assets consist of endowments and similar type funds where donors or other outside sources have stipulated that, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for

the purpose of producing present and future income to be expended or added to the principal. Unrestricted Net Assets represent resources used for the College's general operations. They may be used at the discretion of the College's Board of Trustees to meet current expenses for any lawful purpose in support of educational and general and auxiliary activities.

The following is a summary of the Statement of Net Assets for each fiscal year:

Condensed Statement of Net Assets

	At 6/30/10	At 6/30/09
Total Current Assets	$ 2,410,258	$ 2,596,899
Total Non-Current Assets	$ 12,264,347	$ 12,198,448
TOTAL ASSETS	**$ 14,674,605**	**$ 14,795,347**
Total Current Liabilities	$ 873,466	$ 818,089
Total Non-Current Liabilities	$ 5,028,774	$ 5,132,069
TOTAL LIABILITIES	**$ 5,902,240**	**$ 5,950,158**
Invested in capital, net of related debt	$ 5,816,995	$ 5,516,700
Restricted-expendable	$ 1,776,646	$ 1,751,961
Unrestricted	$ 1,178,724	$ 1,576,528
TOTAL NET ASSETS	**$ 8,772,365**	**$ 8,845,189**

Information significant to reading the Statement of Net Assets:

- The decrease in Current Assets is primarily from the increase in the cost of programmatic offerings and unexpected operating costs.

- The increase in Total Non-Current Assets is primarily due to the increase in the value of donated investments.

- The increase in Total Current Liabilities is primarily the result of recognizing deferred revenue relating to grants.

- The reduction in Total Non-Current Liabilities is primarily the result of payments made to service debt.

- The Net Assets Invested in Capital Assets, Net of Related Debt is primarily made up of the value of buildings and land held by the College less accumulated

depreciation and net of debt balances related to the capital assets. The increase is mainly from the reduction in long term debt and the acquisition of capital assets.

- Restricted- Expendable Net Assets are held primarily in the grant and debt service activities of the College.

- Unrestricted Net Assets is made up of operating activities, auxiliary activities, and also numerous designated activities which include funds designated as follows:

1. **Student Activity Fee** – Any change in the Student Activity Fee must be approved by a majority of the voting students, approved by the Board of Trustees, and the Board of Regents. The Student Activity Fee is allocated and deposited into five separate agency accounts; 46% to Associated Student Body, 25.75% to Athletics, 12.75% to Publications, 12.75% to Institutional, and 2.75% to Theatre. The Student Government administers the Associated Student Body account, and the Board of Trustees or their designee administers the remaining accounts.

2. **Library Fees** – Any change in the Library Fee must be approved by the Board of Trustees, and the Board of Regents. Library Fees are intended to augment, not replace, basic operating expenses of the library and may be used for:

   a. Consumable supplies
   b. Periodicals and holdings
   c. Equipment and improvements

   The annual amount budgeted from Library Fees is based on anticipated revenues generated from projected annual enrollment.

   Library Fees are not intended for continuing personnel costs.

3. **Student Building Fees** – Any change in the Student Building Fee must be approved by a majority of the voting students, approved by the Board of Trustees, and the Board of Regents. Student Building Fees are collected specifically for the purpose of purchasing land, new construction, and making improvements to existing facilities. Use of Student Building Fees requires the approval of the Associated Student Body, the Board of Trustees, and the Board of Regents.

4. **Computer Fees** – Any change in the Computer Fee must be approved by the Board of Trustees, and the Board of Regents. Computer Fees are collected for the purchase or lease of computer equipment, software, maintenance or related items which will benefit the

College's IT/AS400 system. This system is primarily used for student records and the payroll and general accounting record keeping.

5. **Building Repairs and Maintenance Fees** – Any change in the Building Repairs and Maintenance Fee must be approved by the Board of Trustees, and the Board of Regents. Building Repairs and Maintenance Fees are for major repairs or maintenance of College owned building and grounds. This fee would typically be used for major renovations and repairs.

6. **Technology Fees** – Any change in the Technology Fee must be approved by the Board of Trustees, and the Board of Regents. Technology Fees are collected for the purchase or lease of computer equipment, software, maintenance or related items which will benefit the educational process.

Statement of Revenues, Expenses, and Changes in Net Assets

The operating and nonoperating activities creating the changes in the College's total net assets are presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present all revenues received and accrued, all expenses paid and accrued, and gains and losses from investment and capital assets activities.

Generally, operating revenues are received for providing goods and services to students and other constituencies of the College. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues and to carry out the College's mission.

Nonoperating revenues are revenues received for which goods and services are not directly provided. State appropriations and gifts are included in this category, but provide substantial support for paying the College's operating expenses. Therefore, the College, like most public institutions, will expect to show an operating loss.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	For Fiscal Year Ending 6/30/10	For Fiscal Year Ending 6/30/09
Operating Revenues	$ 4,200,021	$ 3,577,135
Operating Expenses	$ (7,666,683)	$ (6,847,865)
Operating Loss	$ (3,466,662)	$ (3,270,730)
Net Nonoperating Revenues/(Expenses)	$ 3,393,838	$ 3,316,207
Income before other revenues, expenses, gains or losses	**$ (72,824)**	**$ 45,477**
Other Expenses	$ -	$ -
Change in Net Assets	**$ (72,824)**	**$ 45,477**

Net Assets - Beginning of Year	$	8,845,189	$	8,799,712
Restatements	$		$	
Net Assets - End of Year	$	8,772,365	$	8,845,189

Information regarding specific revenue and expense items:

- Tuition and fees: In keeping with the Governor's CAP initiative tuition and fees for all students were frozen for fiscal year 2010. The College maintained the amount and number of tuition waivers to remain competitive with offerings by educational institutions in bordering states. Revenues from workshops, federal and state funding, and distance education offerings continued to increase.

- Other Operating Revenues: The increase in this category is primarily due to the funding for the SunGard software conversion and retirement mill levy.

- Salaries and Benefits: The College did not grant any salary increase for the 2010 fiscal year. Employees did receive annual step increases. The College increased the contribution for medical benefits for all employees covered by the MUS insurance plan. Previous vacancies remain unfilled for the entire fiscal year. In addition to the vacancies the College placed the Golf program in abeyance. The change in benefits is primarily due to the inclusion of the retirement mill levy as an operating expense.

- Operating Expense: Scholarships and grants from State and Federal sources, Other Operating Expense included expenses relating to SunGard software implementation and WIRED grant partnership expenses were the primary reasons for the increases in operating expenses.

Statement of Cash Flows

The Statement of Cash Flows presents detailed information about the College's cash activity during the year. Operating cash flows will always be different from the operation loss on the Statement of Revenues, Expenses, and Changes in Net Assets. This difference occurs because the Statement of Revenues, Expenses, and Changes in Net Assets is prepared on the accrual basis of accounting and includes non-cash items such as depreciation expense, and the Statement of Cash Flows presents cash inflows and outflows without regard to accrual items. The Statement of Cash Flows assists readers in assessing the ability of an institution to generate future cash flows necessary to meet obligations and evaluate its potential for additional financing.

The statement is divided into five sections. The first section shows the net cash provided (used) by the College's operating activities. The next section reflects the cash flows from noncapital financing activities and includes State appropriations for the College's

educational and general programs and financial aid. This section reflects the cash received and spent for items other than operating, investing, and capital financing purposes. Cash flows from capital financing activities present cash used for the acquisition and construction of capital and related items. The next sections shows cash flows related to purchases, proceeds, and interest received from investing activities. The final section reconciles the net cash used by operating activities to the operating loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Condensed Statement of Cash Flows

	For Fiscal Year Ended 6/30/2010	For Fiscal Year Ended 6/30/2009
Cash Provided (Used) by:		
Operating Activities	$ (3,007,361)	$ (2,419,056)
Noncapital Financing Activities	$ 3,500,631	$ 3,467,281
Capital and Related Financing Activities	$ (912,258)	$ (887,628)
Investing Activities	$ 231,269	$ (211,594)
Net Increase (Decrease) in Cash	$ (187,719)	$ (50,997)
Cash and Cash Equivalents, Beginning of Year	$ 3,473,825	$ 3,524,822
Cash and Cash Equivalents, End of Year	$ 3,286,106	$ 3,473,825

Pending Economic and Financial Issues

Population:
The College will continue to face challenges due to the stagnant or declining population in Eastern Montana. Additionally, the average age of the remaining population is projected to increase. The College will continue to explore avenues to attract traditional and non-traditional students to the campus and to offer a greater variety of adult life-stage appropriate educational programming.

Regional Economy:
For the past five years Eastern Montana and Western North Dakota has been the hub for energy development in the region. Starting pay for entry level jobs exceeds $60,000 per year and demand for workers is high. Recruiting students in the present economic environment is difficult. The College will experience a greater degree of success in recruiting students if an economic down turn occurs.

State Funding:
The three community colleges were successful in making positive changes to the community college funding mechanism. The Fixed Cost/Variable Cost funding formula does help flatten out variations in FTE based funding, but the Legislature still determines public policy by setting the percentage of funding. The current economic environment threatens the level of State funding for Montana's community colleges. It is almost certain that, with the expiration of the Federal stimulus funding at the end of fiscal year 2011, the Legislature will have to deal with potential budget cuts. How this impacts the College remains to be seen. The uncertainty of this environment requires the College to continually pursue alternative funding sources and to seek opportunities for growth.

Student Records and Management System:
The College is in need of a student records and management system that meets current standards and has potential for future growth. The current system was acquired in the 1980s and has limited capacity. The College in partnership with the Office of Commissioner of Higher Education and the Board of Regents began the process of implementing the SunGard Banner integrated data base. This process is expected to take one year with a completion date of July 2011. The process has been challenged with major glitzes in technology, employee turnover and very limited human resources allocated to the conversion and implementation. Allocation of additional resources to this project will help with accomplishing this monumental task.

Faculty and Staff:
The College's compensation and benefits package continue to be competitive with other institution in the region. This situation has improved the College's ability to attract preferred candidates for vacant positions.

DAWSON COMMUNITY COLLEGE
GLENDIVE, MONTANA
STATEMENT OF NET ASSETS
JUNE 30, 2010

ASSETS		
Current Assets		
Cash and Cash Equivalents - Note C	$	1,677,974
Taxes Receivable - Note A		131,912
Tuition Receivable		145,901
Grants Receivable - Note A		197,593
Student Loan Receivable		83,094
Accounts Receivable - Note A		22,536
Prepaid Expense		33,183
Inventory - Note A		118,065
Total Current Assets		2,410,258
Noncurrent Assets		
Restricted Cash and Cash Equivalents - Note C		1,608,132
Capital Assets - Land - Note D		137,518
Capital Assets - Depreciable - Note D		15,067,838
Less: Accumulated Depreciation		(4,549,141)
Total Noncurrent Assets		12,264,347
Total Assets		14,674,605
LIABILITIES		
Current Liabilities		
Accounts Payable		226,257
Accrued Payroll		19,605
Deferred Revenue - Grants		135,122
Room Deposits		13,257
Interest Payable		28,201
Compensated Absences Payable - Note E		157,174
Current Portion of Long-Term Obligations - Note F		293,850
Total Current Liabilities		873,466
Noncurrent Liabilities		
Compensated Absences Payable - Note E		294,257
Noncurrent Portion of OPEB Obligations - Note H		189,147
Noncurrent Portion of Long-Term Obligations - Note F		4,545,370
Total Noncurrent Liabilities		5,028,774
Total Liabilities		5,902,240
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		5,816,995
Restricted for:		
Expendable:		
Student Loans		94,860
Scholarships, Research, Instruction, and Other		1,681,786
Unrestricted		1,178,724
Total Net Assets	$	8,772,365

See accompanying notes to the financial statements.

DAWSON COMMUNITY COLLEGE
GLENDIVE, MONTANA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010

REVENUES	
Operating Revenues	
Tuition and Fees (net of scholarship allowance of $407,425)	$ 761,920
Federal Grants and Contracts	1,642,285
State Grants and Contracts	62,725
Private and Local Grants and Contracts	175,153
Auxiliary Activities:	
Bookstore	145,918
Dormitory	310,991
Other Operating Revenues (Expenses)	1,101,029
Total Operating Revenues	4,200,021
EXPENSES	
Operating Expenses	
Salaries	2,698,067
Benefits	1,140,722
Travel	161,548
Supplies	260,808
Contracted Services	96,802
Postage	11,646
Rent and Lease	20,426
Repairs and Maintenance	146,021
Advertising	1,381
Utilities	152,917
Student Support	171,681
Communications	29,208
Scholarships and Grants	966,246
Equipment	136,941
Insurance	43,913
Indirect Costs	8,076
Items for Resale	80,870
Workshop/Distance Education	114,364
Other Operating Expenses	1,027,578
Depreciation Expense	397,468
Total Operating Expenses	7,666,683
Operating Loss	(3,466,662)
NONOPERATING REVENUES (EXPENSES)	
Gain (Loss) on Investments	231,269
State Appropriations	1,685,581
Local Appropriations	1,686,925
Interest Payments	(209,937)
Total Nonoperating Revenues	3,393,838
DECREASE IN NET ASSETS	(72,824)
Net Assets, Beginning of Year	8,845,189
Net Assets, End of Year	$ 8,772,365

See accompanying notes to the financial statements.

DAWSON COMMUNITY COLLEGE
GLENDIVE, MONTANA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	$	745,706
Grants and Contracts		1,914,690
Payments to Employees		(2,843,469)
Payments for Benefits		(951,575)
Payments to Suppliers		(1,008,123)
Payments for Utilities		(152,917)
Payments for Scholarships and Fellowships		(966,246)
Collection of Loans to Students		(1,751)
Workshop/Distance Education		(114,364)
Auxiliary Enterprise Charges		
Bookstore		145,918
Dormitory		309,207
Other Receipts (Payments)		(84,437)
NET CASH USED BY OPERATING ACTIVITIES		(3,007,361)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Appropriations		1,685,581
Local Appropriations		1,677,967
Other Nonoperating Revenues		127,141
Student Organization Agency Transactions		9,942
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES		3,500,631
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchases of Capital Assets		(414,206)
Principal Paid on Capital Debt		(283,557)
Interest Paid on Capital Debt		(214,495)
NET CASH USED BY CAPITAL FINANCING ACTIVITIES		(912,258)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income		50,293
Realized and Unrealized Gains/Losses		180,976
NET CASH PROVIDED BY INVESTING ACTIVITIES		231,269
Net Decrease in Cash and Cash Equivalents		(187,719)
Cash and Cash Equivalents, Beginning of Year		3,473,825
Cash and Cash Equivalents, End of Year	$	3,286,106
Reconciliation to Statement of Net Assets		
Cash and Cash Equivalents	$	1,677,974
Restricted Cash and Cash Equivalents		1,608,132
Total Cash and Cash Equivalents	$	3,286,106
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$	(3,466,662)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation Expense		397,468
Changes in Net Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable		(4,172)
(Increase) Decrease in Grants Receivable		(27,150)
(Increase) Decrease in Prepaid Expenses		(836)
(Increase) Decrease in Inventory		(9,123)
Increase (Decrease) in Accounts Payable		(10,251)
Increase (Decrease) in Deferred Grant Revenue		61,677
Increase (Decrease) in Room Deposits		(1,784)
Increase (Decrease) in Compensated Absences Payable		(135,675)
Increase (Decrease) in OPEB Obligations		189,147
Net Cash Used By Operating Activities	$	(3,007,361)

See accompanying notes to the financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Dawson Community College, a Community College District (the College), is presented to assist in understanding the College's financial statements. The financial statements and notes are representations of the College's management, which is responsible for their integrity and objectivity.

In July 2004, the Governmental Accounting Standards Board (GASB) issued Statement NO. 45, Accounting and Financial Reporting By Employers for Postretirement Benefits Other Than Pensions. The College implemented this new statement during the year ended June 30, 2010. Certain significant changes in the Statement include the following:

> Recognition of cost of postemployment benefits on the government-wide financial statements on the accrual basis of accounting instead of the cash basis.
>
> Provide information on current values of future benefits, associated liabilities, and summarize major plan provisions and demographics.

Reporting Entity

Dawson Community College is a community college district which has received full accreditation by the Northwest Association of Schools and Colleges. The College is managed by a Board of Trustees, each member of which is elected in district-wide elections. The college administration is appointed by and responsible to the Board of Trustees.

The County government of Dawson County provides substantial services to the College. Taxes are levied and collected by the County. Cash is maintained and invested by the County Treasurer. The County does not significantly influence the operations of the College; thus, the College is treated as a separate and independent unit of local government.

The College, for financial purposes, includes all funds, account groups, organizations and boards for which the College is financially accountable, and other organizations for which the nature and significance of the relationship are such that the exclusion would cause the College's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a majority of the governing body, and by the imposition of will or the potential for financial benefit or burden.

In May 2002, GASB issued Statement No. 39, "*Determining Whether Certain Organizations are Component Units, and Amendment of GASB Statement No. 14.*" The College was required to adopt GASB No. 39 as of and for the year ended June 30, 2004. The statement requires that a legally tax exempt organization should be reported as a component unit of a reporting entity if the economic resources received or held by these organizations are entirely or virtually entirely for the direct benefit of the reporting entity or its component units, and the reporting entity is entitled to, or has the means to otherwise access, a majority of the economic resources received or held by the separate organization. The resources of the separate organization must also be significant to the reporting entity. Accordingly, the College has identified the Dawson College Foundation, Inc. as a component unit. The financial data of the Foundation would be discretely presented in a column separate from the financial data of the College's primary government. The Foundation's financial information is not included in these financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statements

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

Basis of Accounting

For financial reporting purposes, the College is considered a special-purpose government engaged only in business-type activities. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Accordingly, the College's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when incurred. Grant revenues are reported only to the extent that they have been expended for their restricted purposes.

The College had the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The College has elected not to apply FASB pronouncements issued after the applicable date.

Cash and Cash Equivalents

The College considers all investments to be highly liquid, and, therefore, cash equivalents.

Investments

Investments are carried at fair value. Investments in the State Short-term Investment Pool (STIP) may include certain types of derivatives. A derivative is any "contract whose value depends on, or derives from, the value of an underlying asset, reference rate or index." The STIP portfolio includes asset-backed securities and variable-rate (floating rate) instruments. (See Note C on Investment Risk Categories.)

Taxes Receivable

The College records taxes receivable and revenue for property taxes that have been assessed but have not yet been collected.

Accounts Receivable

Accounts receivable consists primarily of student tuition and fees. No allowance for doubtful accounts has been established as the College utilizes the direct write-off method.

Grants Receivable and Deferred Revenue

Grants receivable are for expenditures made on grants for which reimbursement has not been received. Deferred revenue represents amounts received in excess of expenses incurred, but which are to be expended in a future period.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories consist mainly of bookstore supplies and are valued at cost on the first-in, first-out method. The costs of inventory are recorded as expenditures when consumed.

Use of Estimates

The preparation of these financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual amounts could differ from these estimates.

Noncurrent Assets

Cash that is externally restricted as to its use is classified as a noncurrent asset in the accompanying statement of net assets.

Capital Assets

Capital assets include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, curbs, etc.). Capital assets are defined as assets with an individual initial cost of more than $5,000 and an useful life in excess of one year for equipment and library resources and $25,000 for buildings and improvements.

All purchased capital assets are valued at cost where historical records are available and at estimated historical costs where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Property, plant, and equipment is depreciated under the straight-line method over the following estimated useful lives:

	Years		Years
Buildings	50	Library Resources	10
Equipment	5 - 20	Improvements	7 - 25

Donated Services

The value of donated services are not recognized, since the types of services rendered do not create or enhance the College's non-financial assets, nor do they require specialized skills.

Compensated Absences

As required by law, employees are allowed to accumulate earned but unused vacation and sick leave benefits. Unused vacation benefits are 100% payable upon termination. Unused sick leave benefits are payable at 25% of the unused portion upon termination. This liability has been reported as a liability and an expense in the financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets

The College's net assets are categorized as follows:

Invested in capital assets, net of related debt - capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted, expendable - net assets whose use by the College is subject to externally imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time.

Restricted, nonexpendable - net assets subject to externally imposed stipulations that the College maintain those assets permanently.

Unrestricted - net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management, the Board of Trustees, or the Board of Regents, or may otherwise be restricted by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for general operating purposes and capital asset acquisition.

Revenues

The College has classified its revenues as either operating or nonoperating according to the following criteria:

Operating Revenue - includes activities that have the characteristics of exchange transactions, including student tuition and fees, net of scholarship allowances and discounts; sales and services of auxiliary services; and most grants and contracts.

Nonoperating Revenue - nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined an nonoperating revenues by GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting", and GASB Statement No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments". Types of revenue sources that fall into this classification are state appropriations and investment income.

Use of Restricted Revenues

When the College maintains both restricted and unrestricted funds for the same purpose, the order of use of such funds is determined on a case by case basis. Restricted funds remain classified as restricted until they are expended.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax Status

The College, as a governmental entity, is exempt from federal and state income taxes.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Change in Net Assets. Scholarship discounts and allowances are generated by the difference between the stated charge of goods and services provided by the College, and the amount that is paid by the students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance.

Private Purpose Trust Funds

The College's student activities funds are considered private purpose trust funds as they represent assets held in a fiduciary capacity for student activities and organizations and cannot be used to support the College's own programs. The College does not present separate statements for these funds as required by Governmental Accounting Standards Board Statement 34, but includes the funds as restricted cash and net assets in the Statement of Net Assets. The student activities funds cash and net assets as of June 30, 2010 total $58,114.

NOTE B - LOCAL APPROPRIATIONS

All property taxes are collected by the Treasurer of Dawson County, Montana. Property taxes attach as an enforceable lien on property as of January 1st and are levied on the 2nd Monday in August. They are due in two equal installments on November 30th, and May 31st, following the levy date.

The tax levies for the College for the year ended June 30, 2010 was as follows:

	Number of Mills
General Levy	53.12
Debt Service Levy	16.75
Adult Education Levy	5.62
Retirement Fund Levy	16.17
Total	91.66

The value of one mill was $13,922 for 2010.

NOTE C - CASH AND CASH EQUIVALENTS

Cash and investments as of June 30, 2010, consist of the following:

	College
Cash on Hand	$ 1,950
Deposits with Financial Institutions	62,234
Time Certificate of Deposit with Financial Institution	47,482
Investments	1,258,629
Invested in the Dawson County Investment Pool	1,915,811
Total Cash and Investments	$ 3,286,106

The College follows the practice of pooling cash and investments of all funds with the Dawson County Treasurer, except for student loan fund deposits, agency funds, loan reserves, and Harold Ullman Funds, which are held in demand deposit and investment accounts with local financial institutions.

The College may invest in savings deposits, time deposits or repurchase agreements in financial institutions that are both located in Montana and insured by FDIC, FSLIC, or NCUA. The College may also invest in general obligations of the United States Government, Federal Home Loan Bank, Federal National Mortgage Association, Federal Home Mortgage Corporation, and Federal Farm Credit Bank, or a U.S. government security money market fund which holds eligible securities in its investment program, or in a unified investment program with the state, county treasurer, or any other political subdivision as long as investments are eligible investments.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investments, the greater the sensitivity of its fair value to changes in market interest rates.

The College's investments in the Dawson County Investment Pool and various open-ended mutual funds can be liquidated at any time and are therefore not subject to interest rate risk. The College does not have a policy limiting it's interest rate risk.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Dawson County Investment Pool does not have a rating provided by a nationally recognized statistical rating organization.

Concentration of Credit Risk

The investment policy of the College contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the Montana Code Annotated. There are no investments in any one issuer that represent 5% or more of the total College investments.

NOTE C - CASH AND CASH EQUIVALENTS (CONTINUED)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Montana law requires 50% security of deposits with financial institutions in excess of the depository insurance coverage limits. A governmental entity's money is insured for each "public unit" based on how the account is titled at the financial institution. The Dawson County government is considered to have $250,000 FDIC coverage for demand deposits and $250,000 FDIC coverage for time and savings deposits in each bank in the state.

The College's deposits with financial institutions did not exceed federal depository insurance limits at June 30, 2010.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or governmental investment pools (such as the Dawson County Investment Pool).

Investment in the Dawson County Investment Pool

The College participates in the Dawson County Investment Pool. Information pertaining to the County's investment pool can be obtained from the County's annual report. The investment pool is not registered with the Securities and Exchange Commission. The pool is managed by the Dawson County Treasurer, who reports to the Dawson County Commissioners. The pool unit is fixed at $1 per share for purchases and redemptions. Participants may buy and sell fractional shares.

The county investment pool has money invested in the State Short-Term Investment Pool (S.T.I.P.) which includes asset-backed and variable-rate securities. Asset-backed securities have less credit risk than securities not backed by pledged assets. Market risk for asset-backed securities is the same as for similar non asset-backed securities. Variable-rate securities have credit risk identical to similar fixed-rate securities; the related market risk is more sensitive to changes in interest rates. However, their market risk may be less volatile than fixed-rate securities because their value will usually remain at or near par value as a result of their interest rates being periodically reset to maintain a current market yield. The Montana Board of Investments reported that they were not aware of any legal risks associated with any of the S.T.I.P. investments, as of June 30, 2010.

Foreign Currency Risk

The College does not have a formal policy to limit foreign currency risk and does not have any foreign currency risk as the College does not own any foreign currency.

DAWSON COMMUNITY COLLEGE
GLENDIVE, MONTANA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE C - CASH AND CASH EQUIVALENTS (CONTINUED)

Restricted Cash and Investments

Restricted cash and investments consisted of the following at June 30, 2010:

Restricted for Dorm Furniture Replacement	$	30,088
Dorm Deposits		13,257
Restricted for Program Development Fund		(1,184)
Donor Restricted		1,262,248
Restricted for Grants		70,905
Restricted for DCC Retirement Fund		78,178
Restricted for N.D.S.L.		11,766
Stockman Bank Loan Reserve		37,278
USDA Loan Reserve		47,482
Restricted for Student Organizations		58,114
Total Restricted Cash and Investments	$	1,608,132

NOTE D - CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2010, were as follows:

	Balance 6/30/2009	Current Additions	Current Deletions	Balance 6/30/2010
Land	$ 137,518	$ -	$ -	$ 137,518
Buildings	12,738,048	-	-	12,738,048
Improvements	445,729	26,030	-	471,759
Equipment	1,169,900	383,473	(91,738)	1,461,635
Library Inventory	391,693	4,703	-	396,396
Total	14,882,888	414,206	(91,738)	15,205,356
Less Accumulated Depreciation	(4,243,411)	(397,468)	91,738	(4,549,141)
Capital Assets, Net	$ 10,639,477	$ 16,738	$ -	$ 10,656,215

NOTE E - COMPENSATED ABSENCES PAYABLE

Compensated absences payable, which represent vacation and sick leave earned by employees which is payable upon termination, at June 30, 2010, was as follows:

	Balance 6/30/2009	Increase (Decrease)	Balance 6/30/2010
Vacation and Sick Leave	$ 450,023	$ 1,408	$ 451,431

NOTE F - LONG-TERM OBLIGATIONS

Long-term obligations consists of two mortgages payable and several notes payable, as described below. Changes in long-term payables during 2010 were as follows:

	Balance 6/30/09	Debt Issued	Principal Payment	Balance 6/30/2010	Current Portion
Stockman Bank	$ 573,080	$ -	$ 20,611	$ 552,469	$ 21,774
USDA Rural Development	630,193	-	7,836	622,357	9,798
General Obligation Bonds	3,265,000	-	160,000	3,105,000	165,000
Mid Rivers Communications	258,333	-	50,000	208,333	50,000
Intercap Loan	396,171		45,110	351,061	47,278
	$ 5,122,777	$ -	$ 283,557	$ 4,839,220	$ 293,850

The note payable to Stockman Bank of $700,000 originated on February 21, 2000. Payments of $65,298 including both principal and interest, are due on February 10 each year. The note will mature in 2025. Interest is payable at 7.97% per annum, with the interest rate to be recalculated every five years. The interest rate will not fall below 7% nor rise higher than 11.5%. This note is secured by the dormitory and its contents. This note is secured by deeds of trust on real estate and improvements of the student dormitories and adjacent parking area. The note is also secured by any furniture, fixtures, and equipment located in the dormitories, along with an assignment of rental revenue from all of the student dormitories owned by the College.

The note payable to the United States Department of Agriculture - Rural Development originated on February 21, 2000, in the amount of $700,000. Principal and interest payments of $39,410 are due on February 21 each year for 40 years. Interest is payable at 4.75% per annum. This note is secured by an assignment of rental revenues from all existing and hereinafter acquired student dormitory facilities owned by the College.

On September 1, 2004, Dawson Community College issued general obligation bonds at a purchase price of $4,000,000 and an interest rate of 2.9%-4.35% to pay a portion of the costs of designing, constructing, furnishing and equipping a library and learning center expansion project and for the construction of a new performing arts center/gymnasium. The bonds bear interest payable semiannually on January 1 and July 1 each year, commencing January 1, 2005. The bonds mature beginning July 1, 2005 through 2022.

The note payable to Mid Rivers Communications of $400,000 originated on October 25, 2004. Principal payments of $4,167 are due monthly. The note will mature in 2014. This is an interest-free loan and is secured by the aforementioned construction project.

The Intercap Loan of $500,000 originated on May 6, 2005. Payments of principal and interest are due semiannually on February 15 and August 15. Payments consist of a variable principal portion and interest computed at 4.75%. The loan is secured by the aforementioned construction project.

NOTE F - LONG-TERM OBLIGATIONS (CONTINUED)

Mortgages payable maturities are as follows:

Year	Principal	Interest
2011	$ 293,850	$ 212,045
2012	303,323	201,786
2013	317,740	190,896
2014	332,599	179,185
2015	300,967	167,420
2016 - 2020	1,450,853	646,553
2021 - 2025	1,424,068	274,423
2026 - 2030	109,003	89,060
2031 - 2035	136,274	60,776
2036 - 2040	170,543	26,507
Total	$ 4,839,220	$ 2,048,651

NOTE G - RETIREMENT PLANS

The College participates in two state-wide, multiple employer, cost-sharing retirement plans which cover all employees, except some substitute and part-time, non-teaching employees. The Teachers' Retirement System (TRS) covers certified teaching employees, and the Public Employee Retirement System (PERS) covers non-teaching employees. The plans are established by State law and are administered by the Department of Administration of the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries.

Both plans issue publicly available annual reports that include financial statements and required supplemental information for the plans. The reports for the Teachers' Retirement System can be obtained at P.O. Box 200139, 1500 Sixth Ave., Helena, MT 59620-0139. The reports for the Public Employees Retirement System can be obtained at P.O. Box 200131, 1712 Ninth Ave., Helena, MT 59620-0131. The financial statements for the Public Employees Retirement System include activity for a defined benefit and a defined contribution retirement plan. The defined contribution plan is available to all active members starting July 1, 2002. The assets of one retirement plan cannot be commingled with those of another plan.

Contribution rates, expressed as a percentage of covered payroll, which are determined by State law, were as follows:

	Employer	Employee	Total
TRS	7.47%	7.15%	14.62%
PERS	7.07%	6.90%	13.97%

The amounts contributed by both the employees and the College for the prior three years ended June 30, were as follows:

	2010	2009	2008
TRS	$ 296,603	$ 275,046	$ 289,058
PERS	99,383	93,502	90,546
Total	$ 395,986	$ 368,548	$ 379,604

The State of Montana contributes .37% of the employees' wages covered by PERS, and 2.95% of the employees' wages covered by TRS, which are considered on-behalf payments. The College did not record this contribution in its financial statements, as required by generally accepted accounting principles.

NOTE H - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

For the fiscal year ended June 30, 2010, the College implemented Governmental Accounting Standards Board Statement No. 45, Accounting and Reporting for Postemployment Benefits Other than Pensions, for certain postemployment health care provided by the College. The requirements of this Statement were implemented prospectively, with the actuarially determined liability of $1,612,783 at the July 1, 2009, date of transition being amortized over 30 years. Accordingly, for financial reporting purposes, no liability is reported for the postemployment health care and life insurance benefits liability at the date of transition.

Authorization: Montana State law requires state agencies to provide access to health insurance benefits to eligible retirees up to Medicare-eligible age (65) (Sec. 2-18-704(a)(a), MCA). The Board of Regents of the Montana University System (MUS), having broad authority to act in the best interest of the MUS, has directed the Office of the Commissioner of Higher Education (OCHE) to provide access to health insurance benefits beyond age 65. Eligible College retirees may participate in the health insurance plan provided that they contribute to the cost of the plan.

Plan Description: The Dawson Community College Employee Health Plan participates with the Montana University System Employee Group Benefits Plan. Former employees, who retire from the College, and eligible dependents, may continue to participate in the College's health and hospitalization plan for medical prescriptions insurance coverage. The College subsidizes the premium rates paid by the retirees by allowing them to participate in the plan at the blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because an actuarial basis, their current and future claims, are expected to result in higher costs to the plan on average than those of active employees.

Eligibility: Retirees who are eligible to receive retirement benefits from Teachers Retirement System (TRS) or the Public Employees Retirement System (PERS) at the time employment ceases may participate in the plan. Retirees who are in the Optional Retirement Plan (ORP) (through TIAA-CREF) or any other defined contribution plan associated with the MUS must have worked five or more years and be age 50, or have worked 25 years with the MUS to be eligible for retiree benefits. The MUS's Interunit Benefits Committee, at the direction of the OCHE, sets the premiums for such participation. Until a retiree reaches age 65, individual retiree participation premiums range from $409 to $481 per month, depending on the level of deductible and other selected plan features. Upon reaching age 65 (Medicare eligibility), monthly participation premiums range from $209 to $245 for an individual retiree. Coverage is also extended to dependents and surviving dependents of the employee.

Financial and Plan Information: The MUS Group Benefits Plan does not issue a stand-alone financial report, but is subject to audit as part of the State of Montana's Basic Financial Statements, included in the Comprehensive Annual Financial Report (CAFR). A copy of the most recent CAFR can be obtained online at http://afsd.mt.gov/CAFR/CAFR.asp or by contacting the Montana Department of Administration, PO Box 200102, Helena, MT 59620-0102.

NOTE H - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

The plan is considered to be a multi-employer agent plan. All units of the MUS fund the postemployment benefits on a pay-as-you-go basis from general assets. The College's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents an amount that, if funded, would cover normal cost each year and amortize any unfunded actuarial liability over a period of 30 years. For the College for the 2009-2010 fiscal year, the obligations were based on July 1, 2009, census, which included thirteen inactive (retiree and dependent) participants. The College does not contribute to the plan for retirees or their dependents.

Actuarial methods and assumptions: Following are the newly applied actuarial methods and assumptions for the most recent valuation:

(1) Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

(2) Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projections of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

(3) Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-tem volatility in actuarial accrued liabilities and the actuarial value of assets.

(4) The actuarial methods and significant assumptions are:

a) Projected Unit Funding method,
b) Actuarial value of assets is fair value,
c) Discount rate is 4.25%,
d) Salary scale is 2.5%,
e) Healthcare cost trend rate is 9% for fiscal year ending June 30, 2010, grading to 5.0% for fiscal years ending June 30, 2015 and after, and
f) Past service liability is amortized over a closed 30-year period as a level percentage of projected payroll assumed to grow 2.5% per year.

NOTE H - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Annual OPEB Cost and Net OPEB Obligations: The following table shows the College's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the College's net OPEB Obligation.

	2010
Annual Required Contribution	$ 189,147
Adjustment to Annual Required Contribution	-
	189,147
Annual OPEB Cost (Expense)	189,147
Contribution Toward the OPEB Cost	-
Increase in Net OPEB Obligation	189,147
Net OPEB Obligation, End of Year	$ 189,147

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2010 was as follows:

Fiscal Year Ended OPEB Obligation	Annual OPEB Cost	Contribution	Percentage of Annual OPEB Cost	Net Liability
June 30, 2010	$ 189,147	$ -	0.00%	$ 189,147

Funded Status and Funding Progress: The funded status of the plan as of June 30, 2010, was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b/a)	Funded Ration (a/b)	Covered Payroll (c)	UAAL as a Percentage of Payroll ((b-a)/c)
June 30, 2010	$ -	$ 1,612,783	$ 1,612,783	0.00%	$ 4,194,987	38.45%

NOTE I - RISK MANAGEMENT

The College faces a considerable number of risks of loss, including a) damage to and loss of property and contents, b) employee torts, c) professional liability i.e. errors and omissions, d) environmental damage, and e) workers' compensation, i.e. employee injuries. A variety of methods is used to provide insurance for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for property and content damage, employee torts, and professional liabilities. Coverage limits and the deductibles on the commercial policies have stayed relatively constant for the last several years, except for property and content coverage where the guaranteed values have been increased to approximate replacement cost of the assets. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE J - RELATED PARTY TRANSACTIONS

The Dawson College Foundation is a private nonprofit organization with relations to Dawson Community College. As discussed in Note A, this entity is considered a component unit of Dawson Community College.

The Dawson College Foundation donates money to the College for operating expenses of the College, at the discretion of the Board of Trustees of the Dawson College Foundation. The Foundation donated $15,104 during the year ended June 30, 2010, for the purchase of a 28 passenger bus.

NOTE K - SUBSEQUENT EVENT

The fair market value of the College's investments has increased since June 30, 2010. Their fair market value as of December 31, 2010, was $1,460,445, an increase of approximately 23%.

NOTE L - CONTINGENT LIABILITIES AND COMMITMENTS

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the College expects such amounts, if any, to be immaterial.

In March 2010, an arbitration was initiated against the College by the Glendive Federation of Teachers (the Union) and four former College faculty members who were terminated following a reduction of the program they worked for at the College. The Union and former faculty argued that the termination was improper under the collective bargaining agreement, College policies, and Montana law. The Union seeks full reinstatement of the faculty members with back pay. The grievance was arbitrated in November and December 2010. The attorneys are optimistic that the College can successfully defend this grievance. However, should the arbitrator rule against the College, the estimated liability for the cost of the four annual salaries and related benefits is approximately $197,000.

SUPPLEMENTARY INFORMATION

DAWSON COMMUNITY COLLEGE

Student Financial Aid Modified Statement of Cash Receipts and Disbursements

For the Year Ended June 30, 2010

	Pell	Perkins	CWS	SEOG
Assets				
Beginning cash balance	$	$ 20,886	$ 773	$ 950
Additions				
Federal advances	648,720		19,105	34,935
State matching funds				11,645
Interest collected		639		
Interest investments		15		
Principal collected		5,987		
Loans cancelled		908		
Institutional reimbursement		1,323		
Other: Transfer from				666
Total additions	648,720	8,872	19,105	47,246
Deductions				
Distribution to students	648,720	9,970	16,606	47,296
Administrative expenses	506	8,022		900
Other: Transfer to			666	
Total deductions	649,226	17,992	17,272	48,196
Reconciling Items				
Net change in accounts receivable	506		(2,606)	
Net change to cash		(9,120)	(773)	(950)
Ending cash balance	$	$ 11,766	$	$

DAWSON COMMUNITY COLLEGE

Schedule of Expenditures
Student Financial Assistance Programs

For the Year Ended June 30, 2010

		2010
Perkins Loan Program		
Student loan advances	$	9,970
College Work Study		
Wages	$	16,606
Supplemental Education Opportunity Grant Program		
Student grants	$	47,296
Administrative cost		900
	$	48,196
Pell grant program		
Student grants	$	648,720
Administrative cost		506
	$	649,226

DAWSON COMMUNITY COLLEGE

Schedule for Full Time Equivalent

For the Year Ended June 30, 2010

Semester	Resident	WUE	Nonresident	Total
Summer 2009	90.4	3.2	2.7	96.3
Fall 2009	315.5	28.4	31.3	375.2
Spring 2010	353.9	34.7	37.0	425.6

DAWSON COMMUNITY COLLEGE
GLENDIVE, MONTANA
FUNCTIONAL CLASSIFICATION OF OPERATING EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010

	Instruction	Academic Support	Student Services	Institutional Support	Scholarships and Fellowships	Operation and Maintenance of Plant	Auxiliary	Depreciation	Totals
Salaries	$ 1,415,412	$ 194,896	$ 851,679	$ -	$ -	$ 165,449	$ 70,631	$ -	$ 2,698,067
Benefits	677,509	56,961	284,891	14,975	-	68,838	37,548	-	1,140,722
Travel	20,257	8,786	130,701	-	-	1,804	-	-	161,548
Supplies	61,988	97,495	80,181	-	-	19,503	1,641	-	260,808
Contracted Services	13,216	25,702	57,884	-	-	-	-	-	96,802
Postage	1,400	1,400	8,846	-	-	-	-	-	11,646
Rent and Lease	12,626	7,800	-	-	-		-	-	20,426
Repairs and Maintenance	-	21,966	8,553	-	-	55,098	60,404	-	146,021
Advertising	-	901	480	-	-	-	-	-	1,381
Utilities	-	270	-	-	-	110,368	42,279	-	152,917
Student Support	25,700	76,540	69,441	-	-	-	-	-	171,681
Communications	948	-	5,994	-	-	10,276	11,990	-	29,208
Scholarships and Grants	-	-	45,597	-	920,649	-	-	-	966,246
Equipment	-	120,562	15,725	-	-	-	654	-	136,941
Insurance	-	2,406	-	-	-	41,507	-	-	43,913
Indirect Costs	-	8,076	-	-	-	-	-	-	8,076
Items for Resale	-	-	-	-	-	-	80,870	-	80,870
Workshop/Distance Education	114,364	-	-	-	-	-	-	-	114,364
Other Operating Expense	214,535	669,643	93,174	-	-	803	49,423	-	1,027,578
Depreciation Expense	-	-	-	-	-	-	-	397,468	397,468
Totals	$ 2,557,955	$ 1,293,404	$ 1,653,146	$ 14,975	$ 920,649	$ 473,646	$ 355,440	$ 397,468	$ 7,666,683

DAWSON COMMUNITY COLLEGE

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2010

Federal Grantor/Pass-through Grantor/Program	CFDA Number	Federal Grant Award Number	Federal Expenditures
U.S. Department of Labor			
Employment Training Administration:			
Passed-through the Office of the Commissioner of Higher Education:			
WIA Section 503	17.627	WIA Section 503	$ 6,727
WIA Pilots, Demonstrations, and Research Projects	17.261	DCC WIRED	357,767
Passed-through Billings College of Technology:			
Community Based Job Training Grants	17.269	CB-15956-07-60-A30	105,009
Total U.S. Department of Labor			469,503
U.S. Department of Health and Human Services			
Administration for Children and Families:			
Passed-through the Department of Social and Rehabilitation Services:			
Child Care and Development Block Grant	93.575	0902HIED007	22,738
Child Care and Development Block Grant	93.575	1002HIED007	37,315
Child Care and Development Block Grant	93.575	0902SPTG0054	4,504
Child Care and Development Block Grant	93.575	0902 MENT0022	14,051
Child Care and Development Block Grant	93.575	1002ment0022	13,525
Total U.S. Department of Health and Human Services			92,133
U.S. Department of Education			
Office of Student Financial Assistance Programs:			
Student Financial Aid Cluster			
Federal Supplemental Education Opportunity Grants	84.007	N/A	34,985
Federal Work-Study Program	84.033	N/A	16,606
Federal Family Education Loans	84.032	N/A	793,377
Academic Competitiveness Grant	84.375	N/A	21,725
Federal Pell Grant Program	84.063	N/A	648,719
Federal Perkins Loans - Current Portion	84.038	N/A	9,970
Federal Perkins Loans	84.038	N/A	73,125
Total Student Financial Aid Cluster			1,598,507
Office of Postsecondary Education:			
TRIO Student Support Services	84.042	P042A050570	265,915
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	N/A	32,658
Office of Vocational and Adult Education:			
Passed through the Office of Public Instruction:			
Adult Education - Basic Grants to States	84.002	58-6502-5605BG	35,155
Total U.S. Department of Education			1,932,235
Total Federal Awards			$2,493,871

See Notes to Supplementary Schedule of Expenditures of Federal Awards.

DAWSON COMMUNITY COLLEGE

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2009

Federal Grantor/Pass-through Grantor/Program	CFDA Number	Federal Grant Award Number	Federal Expenditures
U.S. Department of Labor			
Employment Training Administration:			
Passed-through the Office of the Commissioner of Higher Education:			
WIA Pilots, Demonstrations, and Research Projects	17.261	DCC WIRED	$ 549,697
Passed-through Billings College of Technology:			
Community Based Job Training Grants	17.269	CB-15956-07-60-A30	5,644
Total U.S. Department of Labor			555,341
U.S. Department of Health and Human Services			
Administration for Children and Families:			
Passed-through the Department of Social and Rehabilitation Services:			
Child Care and Development Block Grant	93.575	0902HIED007	27,645
Child Care and Development Block Grant	93.575	0802HIED007	7,241
Child Care and Development Block Grant	93.575	0902SPTG0054	3,828
Child Care and Development Block Grant	93.575	0902 MENT0022	10,900
Child Care and Development Block Grant	93.575	0802ment0022	9,848
Total U.S. Department of Health and Human Services			59,462
U.S. Department of Education			
Office of Student Financial Assistance Programs:			
Student Financial Aid Cluster			
Federal Supplemental Education Opportunity Grants	84.007	N/A	33,985
Federal Work-Study Program	84.033	N/A	17,559
Federal Family Education Loans	84.032	N/A	398,266
Academic Competitiveness Grant	84.375	N/A	21,550
Federal Pell Grant Program	84.063	N/A	411,202
Federal Perkins Loans - Current Portion	84.038	N/A	13,165
Federal Perkins Loans	84.038	N/A	68,178
Total Student Financial Aid Cluster			963,905
Office of Postsecondary Education:			
TRIO Student Support Services	84.042	P042A010495	32,517
TRIO Student Support Services	84.042	P042A050570	250,151
Total TRIO Student Support Services			282,668
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	N/A	38,263
Office of Vocational and Adult Education:			
Passed-through the Office of the Commissioner of Higher Education:			
Career and Technical Education - Basic Grants to States	84.048	DCC LP05	60,686
Passed through the Office of Public Instruction:			
Adult Education - Basic Grants to States	84.002	58-6502-5605BG	46,955
Total U.S. Department of Education			1,392,477
Total Federal Awards			$2,007,280

See Notes to Supplementary Schedule of Expenditures of Federal Awards.

DAWSON COMMUNITY COLLEGE

Notes to Schedule of
Expenditures of Federal Awards

Year Ended June 30, 2010

Note 1 - Basis of Accounting
The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the Dawson Community College under programs of the federal government for the year ended June 30, 2010. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Dawson Community College, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Dawson Community College.

Note 2 - Summary of Significant Accounting Policies
Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

Note 3 - Subrecipients
Of the federal expenditures presented in the schedule, the College provided no awards to subrecipients.

Note 4 - Outstanding Federal Loans
The College has the following federal loan obligation as of June 30, 2010:

- USDA - Rural Development - used in the construction of the student dormitories. The total loan amount was $700,000, of which $622,357 is outstanding as of June 30, 2010.

Note 5 - Reconciliation of Expenditures
The following is a reconciliation of the expenditures reported on the College's schedule of expenditures of federal awards to federal grant revenue reported in the College's statement of revenues, expenses and changes in net assets.

Expenditures on schedule of expenditures of federal awards	$ 2,493,871
Perkin Loans outstanding at year-end	(83,095)
Family Federal Education Loans issued during 2010	(793,377)
Reclassification entries done to eliminate interfund transfers	24,886
Federal grant revenue per financial statements	$ 1,642,285

DAWSON COMMUNITY COLLEGE

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2009

Note 1 - Basis of Accounting

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the Dawson Community College under programs of the federal government for the year ended June 30, 2009. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Dawson Community College, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Dawson Community College.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

Note 3 - Subrecipients

Of the federal expenditures presented in the schedule, the College provided no awards to subrecipients.

Note 4 - Outstanding Federal Loans

The College has the following federal loan obligation as of June 30, 2009:

- USDA - Rural Development - used in the construction of the student dormitories. The total loan amount was $700,000, of which $630,193 is outstanding as of June 30, 2009.

Note 5 - Reconciliation of Expenditures

The following is a reconciliation of the expenditures reported on the College's schedule of expenditures of federal awards to federal grant revenue reported in the College's statement of revenues, expenses and changes in net assets.

Expenditures on schedule of expenditures of federal awards	$ 2,007,280
Perkins Loans outstanding at year-end	(81,343)
Family Federal Education Loans issued during 2009	(398,266)
Reclassification entries done to eliminate interfund transfers	(29,799)
Federal grant revenue per financial statements	$ 1,497,872

JOSEPH EVE
Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board Of Trustees
Dawson Community College
Dawson County
Glendive, Montana

We have audited the financial statements of the Dawson Community College (the "College") as of and for the year ended June 30, 2010, and have issued our report thereon dated March 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 10-1 through 10-3 to be significant deficiencies in internal control.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Dawson Community College's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit Dawson Community College's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Dawson Community College management, the Board of Trustees, the State of Montana Legislative Audit Division, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

JOSEPH EVE
Certified Public Accountants

Billings, Montana
March 30, 2011

JOSEPH EVE
Certified Public Accountants

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board Of Trustees
Dawson Community College
Dawson County
Glendive, Montana

Compliance

We have audited the compliance of Dawson Community College (the "College") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the years ended June 30, 2010 and 2009. The College's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audits.

We conducted our audits of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audits to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinion. Our audits do not provide a legal determination of the College's compliance with those requirements.

In our opinion, the College complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the years ended June 30, 2010 and 2009.

Internal Control over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audits, we considered the College's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Dawson Community College management, the Board of Trustees, the State of Montana Legislative Audit Division, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

JOSEPH EVE
Certified Public Accountants

Billings, Montana
March 30, 2011

DAWSON COMMUNITY COLLEGE

Schedule of Findings and Questioned Costs

June 30, 2010

1. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified - Business-type activities
Adverse - Discretely presented component unit

Internal control over financial reporting:

- Material weakness(es) identified? ______ Yes __X__ No
- Significant deficiency(ies) identified? __X__ Yes ______ None reported
- Noncompliance material to financial statements noted? ______ Yes __X__ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ______ Yes __X__ No
- Significant deficiency(ies) identified? ______ Yes __X__ None reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? ______ Yes __X__ No

Identification of major programs

CFDA Number(s)	Federal Program or Cluster
84.007, 84.033, 84.032, 84.375, 84.063, 84.038	Student Financial Aid Cluster
17.261	WIA Pilots, Demonstrations, and Research Projects
84.042	TRIO - Student Support Services

Dollar threshold used to distinguish between Type A and Type B programs: $300,000

Auditee qualified as low-risk auditee? ______ Yes __X__ No

2. Audit Findings in Relation to Financial Statements

10-1 Capital Assets

Criteria or Specific Requirement: Property records should be maintained in accordance with 25 CFR 276.11 and 25 CFR 900.51. The records should be detailed enough that program management is able to adequately and efficiently identify and locate all items. A physical inventory of property should be taken and a detailed listing should be reconciled to the general ledger.

Condition: The College has inadequate controls and subsidiary records over capital asset accounting. More specifically we noted:

- The College uses an excel worksheet to maintain capital asset records rather than utilizing a capital asset software.
- The reconciliation of physical inventories to detailed general ledger records is not being performed.
- The College is not recording additions, deletions and depreciation expense in a timely manner. This is only done once at year-end.

Context: We obtained copies of capital asset listings. We requested evidence of the reconciliation process between the physical inventories and general ledger.

Effect: Monthly financials do not include all activity of the College since capital assets are not added as acquired throughout the year. Also, there is a greater risk of error using excel worksheets to maintain capital assets and calculate depreciation, given that the College has over 3,000 capital assets in the excel worksheet at year-end.

Cause: The College's capital assets accounting procedures are not adequate to ensure that capital assets are accurately reflected in the property records and general ledger.

Auditors' Recommendations: The College should perform an entity-wide physical inventory of its capital assets every two years, at a minimum. Once completed, the listing must be reconciled to the general ledger control totals and any necessary adjustments to the general ledger must be made. The College should also implement procedures to ensure the proper recording of additions, deletions and depreciation at the end of each month. The College intends to start using the fixed asset module of the Banner accounting software in fiscal year 2011.

2. Audit Findings in Relation to Financial Statements - Continued

10-2 Propriety of Accounts Payable

Criteria or Specific Requirement: Proper accounting procedures suggest that the College's accounting records remain open for a short time following year end to ensure all accounts payable are recorded.

Condition: Pursuant to our search for unrecorded liabilities, we noted two invoices which were dated prior to year-end, but were not recorded as accounts payable at year end.

Context: We reviewed invoices for thirteen payments made after year end, noting unrecorded liabilities from two invoices totaling $101,113.

Effect: Accounts payable and corresponding expenses would have been understated. The College provided an audit adjustment to record these invoices as correct accounts payable.

Cause: The administrative office failed to identify and accrue accounts payable at year-end.

Auditors' Recommendations: Management needs to follow policies and procedures in place for recording and monitoring of accounts payable.

10-3 Tuition Receivable

Criteria or Specific Requirement: Accounts receivable and the corresponding revenue should be recorded at its net realizable value. An allowance for doubtful accounts should be established for the tuition receivable balance the College does not believe will be collected from students.

Condition: The College uses the direct write off method for its tuition accounts receivable. Each year management writes off all balances older than five years and assumes all recievables that are one to five years old are fully collectible. The majority of balances outstanding at year-end are greater than two years old and it seems unlikely that they are 100% collectible.

Context: We reviewed the tuition receivable account and requested supporting documentation.

Effect: Tuition receivable is overstated. The exact amount of the overstatement is not known.

Cause: The College does not have an allowance for doubtful accounts established for tuition receivable.

Auditors' Recommendations: The College should develop a method for determining what portion of the tuition receivable is collectible and develop an allowance for doubtful accounts to make sure tuition receivable is recorded at its net realizable value.

DAWSON COMMUNITY COLLEGE

Schedule of Findings and Questioned Costs

For the Years Ended June 30, 2010 and 2009

3. **Audit Findings and Questioned Costs in Relation to Federal Awards**
   No findings or questioned costs related to federal awards.

Dawson Community College
300 College Drive • Box 421 Glendive, Montana 59330-9976
406 377-3396 • Fax: 406 377-8132 • Toll Free: 1-800-821-8320 • www.dawson.edu

March 30, 2011

Joseph Eve
Certified Public Accountants
401 North 31st Street, Suite 1600
Billings, Montana 59101

The following is our response to the recommendation made in the 2010 audit report for Dawson Community College.

Finding #10-01 – Capital Assets

Auditee Response:
The College concurs with the Auditor's findings and recommendations concerning Capital Assets. In December 2009 Dawson Community College signed contracts with SunGard to install a fully integrated institutional software program (Program). The College is in the process of implementing the fixed asset module. Full implementation of this module should resolve the cited conditions and meet recommendations. The College will also perform entity-wide physical inventory of capital assets.

Finding #10-02 – Propriety of Accounts Payable

Auditee Response:
The College concurs with the Auditor's findings and recommendations concerning Propriety of Accounts Payable. In December 2009 Dawson Community College signed contracts with SunGard to install a fully integrated institutional software program (Program). The Program includes the ability to leave the accounting records open following the year end to enter accruals. Additionally, the Program allows for automatic accrual of invoices that remain unpaid at year end. This Program attribute will greatly decrease the probability that invoices are not accrued at year end.

Finding #10-03 – Tuition Receivable

Auditee Response:
The College concurs with the Auditor's findings and recommendations concerning Tuition Receivable. In December 2009 Dawson Community College signed contracts with SunGard to install a fully integrated institutional software program (Program). The Program includes a student accounts receivable module that tracks all accounts receivable balances. The College will modify its current procedures on determining the collectability of student accounts receivable and implement an appropriate allowance for doubtful accounts procedure.

Justin M. Cross
Dean of Administrative Services

Jim Cargill
President

DAWSON COMMUNITY COLLEGE

Summary Schedule of Prior Audit Findings

June 30, 2010

The following summarizes the prior audit findings and corrective action taken:

Finding 09 - 1 Capital Assets **- Not Implemented**

See page 48 for corrective action planned.

Finding 09 - 2 Propriety of Accounts Payable **- Not Implemented**

See page 48 for corrective action planned.

Finding 09 - 3 Tuition Receivables **- Not Implemented**

See page 48 for corrective action planned.